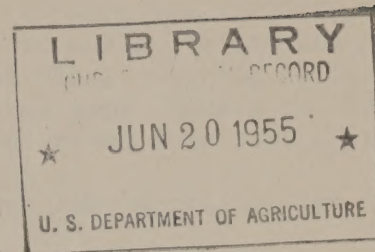


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Rural Electrification Administration
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X AS THINGS LOOK TO ME *X*

Ancher Nelsen, Administrator
Rural Electrification Administration

Years ago in Minnesota we had a farm magazine called the "Farm Stock and Home," and a former editor of that paper by the name of Harry Owens used to write a column entitled "As Things Look to Me." Harry would tell us each month just exactly what was on his mind, what he thought was right and what he thought was wrong. He gave his own opinion and appraisal of happenings of the day and these expressions represented his honest views. As a result, his readers eagerly followed his column month after month.

I am going to borrow that column heading to use as the title of my speech here today. I want to emulate also Harry's forthrightness in stating the facts as I see them as I give my annual report to the farm people who make up this rural electrification program.

This opportunity to speak to so many of you people who have the first-hand responsibility to your farm neighbors for the management of the rural electric systems over the country is to me a real challenge. As co-op directors, you are carrying a responsibility which I used to have in my own co-op, and actually I feel more at home talking with you whom I consider fellow directors than in talking as REA Administrator.

As directors and officials of the rural electric systems, you are the custodians of a great trust which your neighbors and friends have placed in you. You share in responsibilities which are common to all of us in this program. The fact that more than 9 out of 10 of our farms today are enjoying central station electric service does not mean that the trust has been discharged. No, not by any means. In some respects, your responsibilities are just starting.

We in REA have responsibilities too. Most of them are similar to yours -- area coverage, financial soundness, adequate low cost power, self-reliance. These are among the things that concern you as well as REA.

Since coming to REA from my local co-op now nearly 2 years ago, I have tried to keep a clear picture in my mind as to what our job should be and with the help of the many dedicated people we have in REA, we have sought to shape a program of action aimed at getting those jobs done. What we have is a program that is working effectively on many fronts.

I want to make use of this opportunity here today to give you a report of that comprehensive action program and the progress we are making toward the major REA goals. If you will accept this report with an open mind, weighing fairly what has been done, I am convinced you will agree that REA has gone forward so that today rural electrification stands more firmly on solid ground than ever before.

Let us outline the major jobs that we have before us and then appraise what we have done about them.

First, there is area coverage.

REA was established in the first place to accomplish this job. The REA borrowers came into being to accomplish this job. It is a responsibility that is shifting more and more to you, the borrowers. REA continues to have the financing part of the job but in the final analysis, whether or not area coverage is achieved depends upon what you do.

During the last year, the percentage of farms electrified moved a little nearer the 95% mark. REA approved loans in calendar 1954 that will finance central station electric service to a total of 116,000 consumers, a substantial increase over the year before.

Loans are the first step in area coverage and we have sought to speed up our handling of loan applications. We adopted a fast, hard-hitting type of organization, with competent people in the key jobs, and we cut red tape to the bone. This has speeded up our handling of loan applications, and we have been able to cut down the backlog of applications to just about half of what it was a couple of years ago. There will, of course, always be some backlog but the present situation means that there is a minimum of delay for borrowers in getting their loans approved.

Moving over into the telephone program, we have proceeded diligently to speed up operations there too, and we believe that new pre-loan engineering procedures now in effect will speed things up still more. In calendar 1954, we made more than \$66 million in telephone loans, more than in any other calendar year since the program began. More than 100,000 rural homes now have received new or improved service through the program, and construction is proceeding at a good pace.

One of the big difficulties in the telephone program is to get enough qualified telephone engineers. We need them for our own staff and there is also a need for more private consulting engineers to work with borrowers.

Good progress in the telephone program requires a high degree of industry-wide cooperation. Every borrower must have connecting arrangements of some sort -- always for nation-wide long distance service and usually for local service into trading centers, as well.

Our endeavor has been to cultivate an atmosphere of understanding and cooperation with the industry. In turn we have expected their cooperation. Gradually much of the distrust and misunderstanding is being overcome. We have repeatedly indicated that we are not interested in building an empire in the telephone field. We are only interested in making telephones available to the farmers. To the extent the industry is financially able and willing to do this, that is fine. Where the industry can't, REA will push ahead as hard as it can to find ways for doing the job.

From President Eisenhower on down the administration objective in both the electric and telephone programs is to "meet the needs." The needs are being met and there is going to be money left over.

When this fiscal year has been completed, we will have made another reduction in the backlog of loan applications and there will be a total of \$56 million of surplus loan funds that will not have been used. Remember that statement.

In one state as of now, it seems likely that the state allotment formula will handicap the making of loans, but keep this one thing in mind: more money is not the solution to that difficulty.

If we were going to circumvent the law by asking Congress to pour extra appropriations into the state allotment formula, it would take a truly fantastic additional loan authorization. The figure would be something like \$250 to \$350 million and we would end the year with a carryover of unused loan funds of about \$300 million.

The sensible answer is to remove the state allotment formula from the law. That is exactly what we have asked the Congress to do.

In the early days of the REA program this formula served a useful purpose in making sure that the lines were built where the need was the greatest. Today, it is no longer needed with almost every state at or above the 90% level of connected farms. It is obvious that the greatest need for loan funds will be in those states where improvements are needed in systems already built and in those states that need new or extra sources of power.

Briefly, the need of funds in the various states can no longer be measured accurately on the basis of farms without electricity. On the contrary, the size of the REA program in the state will be the principal determining factor as to how much will be needed.

As to our new budget it recognizes greater loan requirements next fiscal year than this. The 1956 budget provides for \$20 million more than the amount loaned in each of the last three years.

Incidentally, I want to thank all the borrowers which cooperated with us so extensively in our survey of loan needs. We obtained responses from more than 80 percent of the borrowers.

In addition to the funds being provided in new loan authorizations, there is still nearly a half billion dollars of approved loans that has not yet been drawn by the borrowers, so it is hard to think that any borrower can be hurting for lack of construction funds. If there is, I would ask that this fact be brought to our attention.

In this 20th year of the program, however, area coverage is primarily a responsibility of the systems serving the rural areas. Area coverage can never be completely realized unless they continue to forge ahead toward this objective.

How many of REA's borrowers actually have 100% area coverage in their proper service area? That is a question that you should ask yourselves. Here are some of the questions you ought to consider:

Have you determined the geographical area within which you should be responsible for seeing that electric power is available?

Have you recently surveyed this area? If not, shouldn't you do so to determine if there are people without service who rightfully look to you for service?

Have you developed plans which you are carrying out that will make electric service available on a sound and business-like basis to all those people?

If not, what should you do about it? What do you think REA should do to help you?

We can see as we travel over the country that progress toward area coverage has been made. What's before us now is a challenge of seeing to it that you, with the help of REA, can finish the job so well begun.

The second major responsibility, as I see it, is to build financially sound systems. That is another responsibility shared by both REA and the borrowers. Certainly the Government's stake is great. The REA loans will soon total \$3 billion, and the only way to get this repaid -- as it is being repaid -- is to have financially sound businesses.

Although the Government's stake is large, ours as rural people is even larger. We must build financially sound electric systems so that we can be sure of continuing to have the benefits of electricity in our homes and in our farming operations.

From REA's standpoint, our action program is geared to approach this matter of loan security from several angles.

First of all, I would like to say a good word about the work of the Management Advisory Committee which represents your Association in the field of management. The group executive training meetings and management improvement activities that this committee has helped push along constitute one of the most significant developments of the last year. If this work is continued and expanded as it should be, it will do more for the future safety of rural electrification than any other single thing that I can think of.

Conversely, if serious financial reverses or defaults should occur, it would give the program a real body blow. Just at this time, we face one of the most serious threats of this type that has ever confronted the program. We have one borrower that is in a hopeless financial condition, and a loss amounting to upward of a half million dollars is possible if it goes under. Even though this loan was made before I became Administrator, I certainly don't want to see the program get such a black eye and we are giving the situation our closest attention, working with every agency we know of that can help.

In the program as a whole, we are working with co-op directors and managers not only in identifying the difficulties that may lie in the future but in drawing upon the kind of practical and tested skill and experience that is needed if we are going to have financially sound systems in the future.

One point on which we have the opportunity to draw upon this experience resource is in connection with capital credits. A number of people from many areas have raised questions with us as to the capital credits plan and we have it under examination with the aim of bringing about improvements as these can be developed.

We proudly point to the fact that of the approximately 1,000 borrowers, only 14 are delinquent in their loan repayments. However, a look at the principal and interest payments that will come due in the period ahead will illustrate that we cannot be complacent but must plan carefully for the future. In 1954, the amount due on loans was about \$72 million. By 1958, it will amount to \$116 million. In other words, the debt amortization load will increase 50 percent within a short period of 4 years.

How well prepared is your cooperative to meet your future obligations so that you can maintain a sound, enduring business?

One way to answer this is to calculate how you would stand if you faced your full amortization schedule today. We have made that calculation for all of the borrowers, and we have found that nearly a fourth of the borrowers would be in some financial trouble to a major or minor degree in that case. I am happy to report that as a result of our joint efforts with borrowers, about three-fourths of those systems with financial problems have achieved some improvement in their position during the past year.

Another interesting thing we have found is this:- of the total number which need to do something to improve their future outlook, about half are selling less electricity than was figured at the time the loan was made. If they were meeting these estimates, they would be out of the woods.

That is one of the reasons why we started last spring to strengthen the power use program and get some results in the form of load-building. This program is tremendously important to you as a director responsible for the successful operation of your power system and it is even more important to you as a farmer who has much to gain from the use of electric power.

The big thing that was done in this program was to organize the Inter-Industry Farm Electric Utilization Council, headed by Deputy Administrator Fred Strong. Today, through this Council's efforts, borrowers in most states are working in cooperation with all segments of the electric industry and with the colleges and extension service. It is a game where everybody wins -- the REA borrowers, the electric appliance people, the power companies, who serve part of the farms directly and sell you more than \$50 million a year in wholesale power. And the one who will benefit the most from this power use program is the farmer himself as he makes more profitable use of electric power on his farm and in his home.

My third point has to do with our goal of adequate low cost power.

During 1954, we made major progress in improving the supply of electric power in rural areas. REA has been determined to work with borrowers in whatever direction promises better and cheaper service for the farmer -- whether it be generation or buying wholesale or a little of both. We have made generation and transmission loans where these have been necessary and we have encouraged integration and interconnection where this approach has been to the borrowers' advantage. From the standpoint of the long-range view, we are keeping a careful eye on developments which may lead to lower cost power whether it involves conventional fuels or atomic energy.

As I have previously stated, I believe the REA authority to make G-T loans is important to the farmers. It is a fundamental part of the REA program and must be preserved. To keep it we must use it wisely. This is our aim and we are making G-T loans where they are the means to lower cost electricity for the farmer.

We approved G-T loans in 1954 in the amount of more than \$40,000,000. This was nearly a quarter of all the loans approved by the Agency during the year -- slightly higher than usual for the Agency through the years.

We were providing financing that will boost the generating capacity of the cooperatives by something over 100,000 kilowatts. At the same time, loans already approved were making possible the construction of a record-breaking amount of generating capacity. During the calendar year 1954, REA borrowers in 10 states and Alaska put into service more than 200,000 kilowatts of generating capacity. This is more capacity than there was in service on all REA-financed generating plants on January 1, 1948. This new capacity sets a record for any one year of the program.

You don't get very far into this matter of power supply before you run up against the question: Do we go it alone or do we engage in an effective cooperative effort with all other segments of the electric industry?

It seems to me that the only sound approach to that question is to think about what is best for the farmer, because the program was set up to benefit him. Looked at from that viewpoint, the cases where it will pay to "go it alone" are mighty few and far between.

We have learned by experience that an isolated system of relatively small capacity means high energy costs and requires standby capacity that adds to the expense. During the past year, an alarming number of distribution borrowers have come to us because they feel their rates are higher than their distribution systems can continue to stand. Some are paying their wholesale bills under protest and some have requested that we agree to their release from their contracts to buy power from their own G-T systems. Developments of this kind, unless solutions are worked out, might well be a threat to the future of the G-T co-op which in turn would be a blow to the whole program. It underscores the need to move forward soundly and carefully.

These are some of the reasons why we have recommended that consideration be given to interconnections where capacity can be merchandised into a power pool and peaking capacity purchased, resulting in a better power rate to the farmer and in turn protecting the distribution cooperatives. Interconnection and integration agreements were actually completed in three states during the past year, while in other instances studies are under way to see what the possibilities might be for savings. In one case, the co-op saved about \$3 million in transmission lines, and in another a co-op saved close to a million dollars by exchanging with a power company and alternating the installation of new generating capacity.

Half the power input of your systems is being purchased from power companies at this time. Generally speaking, you are getting better rates than in earlier years. The average rate of power company purchases today is 8.2 mills as compared with 12.4 mills 15 years ago. The cost of power through G-T federations is higher, although it is improving gradually. I anticipate that further reductions in costs of power produced in REA-financed generating plants will be achieved through the marketing arrangements like the ones I have mentioned.

Another question for us to consider as Government officials and as electric co-op people is: What about the challenge of atomic energy?

Nobody can say for sure that atomic energy will lead to cheaper production of power than the fuels we are presently using. However, we have tried to gear our operations on the assumption that this will be the case because we want the farmer to benefit along with other consumers if it is.

For approximately a year, we have been working with the Atomic Energy Commission. We have asked for and received security clearance for five of our top people and through them we keep advised on the progress and research and development in that field and also are able to keep the Commission informed as to our needs.

The suggestion has been made that REA should employ physicists, metallurgists, and other specialized personnel for experimental work in the atomic field. However, we have been assured by AEC that people on its staff will give us the help we need at no additional cost to REA or to the taxpayers. This would appear to be the wise and effective course, and it is the course we intend to follow.

At the present time, we are contacting borrowers which are planning construction of generation plants. We are seeking to determine their interest in looking into the possibilities of nuclear power as a source for generating electricity. Where any of them is interested, we will help them get security clearance so that they can work with AEC and us in getting the up-to-date information they need to make their decision.

On the basis of information available to our people who are working with the Atomic Energy Commission, the prospects are not bright for obtaining power cost reductions in the near future through the use of atomic energy. As of now, nuclear power reactors are in a developmental state and their costs are therefore high. Commercially atomic energy is not yet competitive. Moreover, there are questions of service interruptions, site of plant locations and liability that have a bearing on the consideration of this matter.

At the same time, AEC's research is steadily going forward and we must keep up with it. In that way, we will keep informed and we will take advantage of every development that gives concrete assurance of a lower cost power source that will be dependable and feasible. We are determined that the REA co-ops will be able to move into the atomic age just as soon as it makes economic sense to do so.

In these days we are in the midst of a great debate on what our national power policies ought to be for the future. It is good that this debate is going on. But let us not permit emotionalism to decide the course for us. One of the questions before us is this: What is the proper role of the Government in the electric power picture? We know that many have decidedly strong points of view on what the answer should be. I do not pretend to be a judge on this but I am impressed by that large group of our citizens who do not see a solution in any extreme -- rather in a moderate program that will harness both our natural resources and our private capital for the benefit of all our people.

What is the role of Government?

Lincoln said -- as we have frequently heard quoted -- "The legitimate object of Government is to do for a community of people whatever they need to have done but cannot do at all or cannot so well do for themselves."

That certainly spells out a job for Government. But the rest of that Lincoln quotation is this, and I quote: "In all that the people can individually do so well for themselves, Government ought not to interfere."

And that spells out a job for you and me as private citizens. I am convinced we will be better off if we spend at least as much time and thought trying to figure out how we can do things for ourselves as we sometimes spend trying to figure out how we can get Government to do things for us.

Thomas Jefferson's view on that subject was this: "Were we directed from Washington when to sow and when to reap, we should soon want bread."

And that brings me to my fourth point -- that of borrower self-reliance. The rural electrification program is free enterprise. We own and operate our system. We have borrowed money to build our lines. We intend to pay it back. We are proud of our accomplishments to date. Likewise, we need to remember that there are others who have invested their savings and facilities who also deserve tolerant consideration on our part. We should always be willing to give the same degree of attention, respect and recognition to the problems that others face. Common sense and mutual understanding are not always easy to achieve, and the test of leadership is to find answers through those means.

It is sometimes tempting and easy to be critical, but there are many constructive things to be talking about. In the words of the popular song, let's "count our blessings instead of sheep."

Counting our blessings, we find that Congress in its wisdom and generosity has made some \$3 billion available as loans to you and me so that we might have electric and telephone service.

We find that human ingenuity has designed and built more efficient equipment so that in spite of commodity cost increases, you and I are able to buy electricity cheaper today than ever before.

We find that a farm today can enjoy a telephone, running water, freezer, television and countless other home appliances, as well as milking machines, hay driers, and motor-driven devices by the score for farmstead chores.

Taking stock of these and the many other blessings we enjoy, let us not lose sight of the fact that these are times of international tension and peril. We must keep our program in its proper perspective, mindful always of the overall interests and problems of our country. As President Eisenhower has said, "Citizenship is not just a privilege, but also a responsibility."

Looking to the future, we the directors, managers and officials in this rural electrification program need always remember that the best insurance we can get for the program is to establish in other people confidence in us and in our integrity.

I know that every employee of REA joins with me in expressing the hope that our handling of your business with REA will merit your confidence because of our performance.

If all of us in the program are fair, tolerant and sound -- if we are willing to hear all the facts in regard to a question -- we will be accepted with dignity and we need have no fear that any force can destroy the program.

Think back to your own community and recall the men well regarded and who have earned roles of leadership and influence. You will find their stature has grown from conduct guided by fairness, soundness and reasonableness.

So as we look to the future of our program let us remember the principles that have proved to be of enduring quality. There is a quotation hanging on the wall in a Missouri co-op which goes like this:

"Four ways to test:

1. Is it the truth?
2. Is it fair to all concerned?
3. Will it bring good will and friendship?
4. Will it be beneficial to all concerned?"

Proceeding on such a basis, I am sure, will lead the way to a great future for rural electrification.

